



# **Long-Term Budget Challenges: Charting Stability for Our Children and Grandchildren**



**Prepared by  
the U.S. Senate**

**BUDGET COMMITTEE**

**Majority Staff**

**Senator Judd Gregg, Chairman**

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## MESSAGE FROM THE CHAIRMAN

As the annual process of writing our federal budget gets underway, two challenges confront lawmakers.

First, we must get the short-term deficit under control. While far below historical highs of the 1980s, the deficit is still cause for concern. The President's budget achieves the goal of cutting it in half within the five-year budget window and Congress should meet that goal.

The second, larger public policy problem is long-term liabilities – promises that our government has already made. Most of these pledges fall under one of three programs – Social Security, Medicare and Medicaid – and are largely dedicated to improving the quality of life of our retired citizens. These programs are on the verge of being overwhelmed by the largest generation in our nation's history, the Baby Boom Generation, which begins retiring in 2008.

These programs represented just over half of all federal spending last year. But in just 10 years they will balloon to two-thirds of the entire budget.

In an effort to shed more light on this looming problem, the Budget Committee conducted a series of hearings, "Long-Term Budget Challenges: Charting Stability for Our Children and Grandchildren." The testimony was eye-opening.

For instance, the Comptroller General of the Government Accountability Office estimates our nation's unfunded promises over the next 75 years are \$44 trillion. For comparison, all taxes collected by the federal government in its history totals only \$38 trillion.

The Director of the Congressional Budget Office pointed out that average post-war government spending is 20 percent of gross domestic product. By 2050, Social Security, Medicare and Medicaid ALONE could require spending equivalent to 26 percent of GDP.

These numbers are staggering, but important for lawmakers and citizens to understand. We have work to do and the longer we delay, the more painful the choices.

I hope you find the attached highlights from these hearings to be informative.



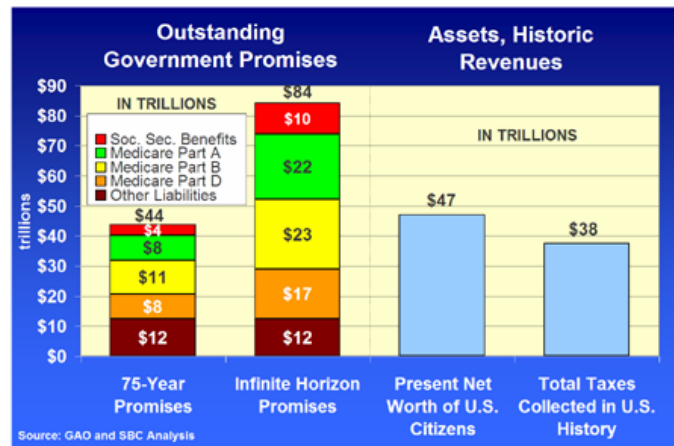


## ***Part I: “Re-Examining the Federal Budget for the 21<sup>st</sup> Century”***

### ***GAO Comptroller General David Walker***

#### **KEY STATISTICS**

- Unfunded federal obligations over a newborn grandchild’s lifetime (the next 75 years): \$43 trillion
- Obligation per worker: \$350,000 – in addition to Social Security and Medicare taxes
- Unfunded 75-year commitment of prescription drug bill: \$8 trillion



#### **TESTIMONY EXCERPTS**

“The problem is too big to be solved by economic growth alone or by making modest changes to existing spending and tax policies. Rather, a fundamental reexamination of major spending and tax policies and priorities will be important to recapture our fiscal flexibility and update our programs and priorities to respond to emerging social, economic, and security changes.”

~David Walker

“I think it is important, as part of the budget document, that there be more transparency about where our existing commitments are – what they are and where they are.”

~David Walker

“Budgets are 5-year or 10-year...but the problems are 30- and 40-year problems.”

What can we do in the budget to make the budget document a more transparent, action-oriented document that, when people look at it, they will say, wow, we have a

***“We cannot deny it, and we cannot avoid it, and we need to get ready for it. I hope we have the courage to step up on this.”***

~Chairman Judd Gregg

problem here; we have got to address it; this is the issue.”

~Chairman Judd Gregg

**Sen. Gregg:** the problem is it is not the new programs, but it is the programs that are on the books.

**Comptroller General Walker:** What I am suggesting with regard to the base of government, that is the accumulation and amalgamation of policies, programs, functions and activities that are there that do not get a whole lot of attention each year because the attention is on what are you plussing up and what are you proposing to cut, with the assumption that the base is okay. The base is not okay.

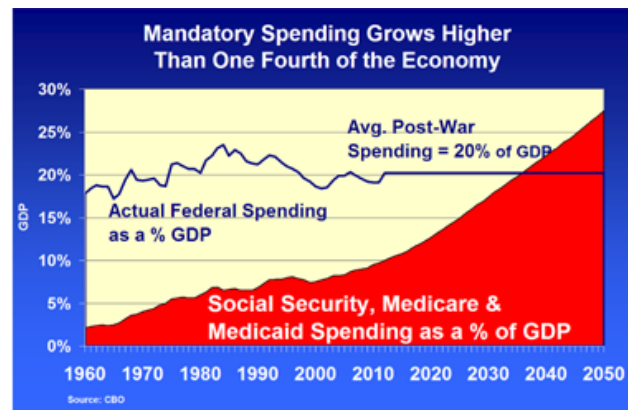


## Part II: “Transparency of Budget Measures”

**CBO Director Douglas Holtz-Eakin**

### KEY STATISTICS

- Post-World War II average federal spending as a percent of GDP: 20 percent
- Percent of GDP consumed by Social Security, Medicare and Medicaid ALONE within our children’s lifetime (by 2050): 26 percent



### TESTIMONY EXCERPTS

“The commitment to spend a dollar has a cost. It makes no difference if the payment is charged to the general fund, a trust fund, or an enterprise fund. It does not matter if the dollar purchases goods and services, provides income support, or subsidizes an activity.

The commitment has a cost – whether it is for a predictable outlay, a potential outlay to liquidate a guarantee or to meet some other contingency.”

~Douglas Holtz-Eakin

***“We are in a circumstance in which Medicare and Medicaid alone could consume what has typically been all of federal spending.”***

~Sen. Kent Conrad

“I think our long-term budget situation is likely unsustainable. There is a long-term mismatch between the spending promised and the resources present to finance it, and the long-term spending promise could, in fact, be so large that one would not want to finance it as a matter of economic policy.”

~ Douglas Holtz-Eakin

**Sen. Conrad:** Why would it be harmful to the economy for the federal government to be consuming 30 percent of gross domestic product? What would be the adverse effect?

**Director Holtz-Eakin:** It is hard to imagine that we could maintain some of the key broad pillars, not details but the big picture pieces of the U.S. economic success have been broadly a reliance on private markets and small, contained government financed by relatively low and efficient taxes. We would have a much larger government. It would take over a greater fraction of the economy. It would necessarily have to

have higher taxes, and to the extent that they were levied in an inefficient fashion, that would have an economic cost. That is well documented. And it may be the case that in those circumstances there would be a temptation – and this is an unknowable part of the future – to accomplish policy goals in other ways, using regulations and mandates, and that interferes with the flexibility of the economy. So it is a future in which the overall scope of things becomes so large that it is hard to maintain the historic patterns that have been successful in the United States.



### ***Part III: “Medicare and Medicaid: Rising Health Care Costs and the Impact on Future Generations”***

***Thomas R. Saving, Director, Private Enterprise Research Center,  
Texas A&M and a Medicare Trustee***

***Jeffrey R. Brown, Assistant Professor of Finance, University of Illinois***

***Lois Quam, Chief Executive Officer, Ovations***

#### **KEY STATISTICS**

- Since 1960, per-capita health care expenditures have grown three percentage points faster than per-capita gross domestic product.
- On today’s course, Medicare will use up 90 percent of projected federal income tax revenues IN ADDITION to dedicated payroll taxes and premiums. (Thomas Saving)
- By the time today’s kindergartners reach age 65, total Medicaid spending will consume more than \$5 out of every \$100 generated by the U.S. economy. (Jeffrey Brown)

Real Per-capita Growth in National Health Expenditures (NHE) vs. Gross Domestic Product (GDP) %			
Period	NHE	GDP	NHE-GDP
1945 to 2002	4.2	1.5	2.6
1960 to 2002	4.5	1.5	3.0
1970 to 2002	4.0	1.8	2.2
1980 to 2002	4.4	2.0	2.4
1990 to 2002	3.7	1.9	1.8

Source: 2004 Review of Assumptions & Methods of the Medicare Trustees’ Financial Projections.

#### **TESTIMONY EXCERPTS**

“If Congress passed legislation today, binding on all future Congresses, setting aside 62 percent of all federal income tax revenues from now to eternity, you could just pay for promised Medicare benefits.” ~*Thomas Saving*

“In 2004, Medicare spending-less premium payments and dedicated tax revenues-required general revenue funding equal to 10.7 percent of total federal income tax revenues...The transfers required to pay current law benefits given current law taxes and premiums will grow from their current level to almost 19 percent of federal income taxes in 2015 to over 32 percent in 2025 and will require over 90 percent of projected federal income tax revenues by 2075. Clearly, it is hard to imagine transfers of this magnitude being made.” ~*Thomas Saving*

“The demands Medicare places on the rest of the federal budget will force Congress to

consider some difficult choices as to who should bear the burden of retirement health care spending. As the debate over Social Security has highlighted the generational consequence of financing elderly entitlements, the generational

burden represented by Medicare amplifies the need for serious considerations of reform.”

~*Thomas Saving*

“In just three years, the leading edge of the baby boom generation will begin claiming Social Security benefits. In just

five years they will begin claiming Medicare. In the years to follow, millions of them will find that, due to declining health, they need long-term care services, including nursing homes. As a result of the substantial costs of paying for long-term care, many of them will end up relying on Medicaid to finance their care after their own financial resources have been exhausted.”

~*Jeffrey Brown*